

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----- 019026

R 171502Z OCT 75
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3698
INFO USMISSION USBERLIN

C O N F I D E N T I A L SECTION 01 OF 02 BONN 17027

EXDIS

DEPARTMENT PLEASE PASS TREASURY FOR YEO

DEPARTMENT PLEASE PASS FRB

USMISSION BERLIN FOR THE AMBASSADOR

E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: STATE SECRETARY POEHL ON CURRENT ECONOMIC
ISSUES

1. SUMMARY: DURING AMBASSADOR'S MEETING WITH
FINANCE STATE SECRETARY POEHL OCTOBER 17, POEHL
REPORTED ON MEETING WITH CHANCELLOR, BUNDESBANK
DIRECTOR EMMINGER, AND ECONOMICS MINISTER FRIDERICH
ON OCTOBER 16. POEHL SAID MEETING WAS DEVOTED TO
SOMEWHAT ROSIER ECONOMIC OUTLOOK, COMPROMISE ON
PARITIES, ECONOMIC SUMMIT, FINANCING OF FRG BUDGET,
AND MARGINS OF THE CHANCELLOR'S VISIT TO THE US.
POEHL ALSO DISCUSSED HIS CONCERNS WITH THE BRITISH
SITUATION. END SUMMARY.

2. DURING OCTOBER 17 MEETING WITH STATE SECRETARY
POEHL OF FINANCE MINISTRY, HE SAID HOW MUCH
HE HAD APPRECIATED OPPORTUNITY EARLY IN WEEK TO
HAVE LENGTHY EXCHANGE OF VIEWS WITH TREASURY UNDER
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SECRETARY YEO ON A NUMBER OF TOPICS.

3. POEHL SAID THAT DURING OCTOBER 16 MEETING WITH CHANCELLOR, ECONMIN FRIDERICHs AND EMMINGER OF BUNDESBANK, CHANCELLOR HAD EXPRESSED HIS SATISFACTION WITH RECENT US VISIT. CHANCELLOR PRIDED HIMSELF THAT HE KNEW EVERYONE IN WASHINGTON SO WELL, HE COULD SPEAK FRANKLY AND OPENLY WITHOUT DANGER OF HURTING ANYONE'S FEELINGS. IN THE DISCUSSION POEHL SAID HE HAD SUGGESTED TO CHANCELLOR THAT WHILE EXPRESSION OF LEGITIMATE FRG CONCERNS OVER NEW YORK WAS FINE IN PRIVATE, DISCUSSION WITH THE PRESS HAD BEEN PERHAPS A MORE DELICATE MATTER. CHANCELLOR NOTED THAT SUBSEQUENT DECISIONS ON INTEREST RATES AND STATEMENT OF BURNS ON NEW YORK SEEM TO REFLECT RESULT OF CHANCELLOR'S DISCUSSIONS (POEHL HIMSELF DID NOT FAVOR REDUCTION OF US RATES BECAUSE OF UPWARD PRESSURE ON DM; CHANCELLOR, HOWEVER, FEELS US RECOVERY IS PREEMINENT).

4. YESTERDAY'S SESSION WAS ALSO DEVOTED TO DOMESTIC ECONOMIC SITUATION WHERE POEHL SAID THERE WERE SOME WEAK FAVORABLE SIGNS -- THE SITUATION WAS NOT TOO UNLIKE THAT IN THE US. FRIDERICHs AND EMMINGER WERE MORE OPTIMISTIC ON SITUATION THAN CHANCELLOR HIMSELF WHO WAS MORE RESERVED.

5. MEETING ALSO DISCUSSED GOVERNMENT FINANCE, WHICH IS NOT EASY. THERE WOULD, SOMEWHAT PARADOXICALLY, BE LIMITED RECOURSE BY FRG TO FOREIGN FINANCIAL MARKETS. HOWEVER, POEHL SAID THERE WERE

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INFO OCT-01 ISO-00 SSO-00 /026 W
----- 018958

R 171502Z OCT 75

FM AMEMBASSY BONN

TO FEUHC/SECSTATE WASHDC 3699

INFO USMISSION USBERLIN

C O N F I D E N T I A L SECTION 02 OF 02 BONN 17027

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LIMITS SINCE FRG DID NOT WANT TO CONTRIBUTE TO
STRENGTHENING OF THE DM.

6. MEETING DISCUSSED QUESTION OF PARITIES AND
ECONOMIC SUMMIT. AS POEHL SAW IT ON PARITIES, THERE
WERE TWO PROBLEMS: THE FIRST INVOLVED A COMPROMISE
ON WORDING OF IMF ARTICLES AND SECONDLY, THE
PRACTICAL QUESTION OF WHAT WE ACTUALLY DO IN THE
EXCHANGE MARKETS. POEHL THOUGHT COMPROMISE MIGHT
BE POSSIBLE AT SUMMIT. HE SAID GERMAN PREPARATIONS
FOR SUMMIT WERE GOING FORWARD IN THE FRG, MOSTLY WITH
THE ECONOMICS MINISTRY, ALTHOUGH HE WAS ALMOST SURE
CHANCELLOR WOULD BE ACCOMPANIED BY FOREIGN AND
FINANCE MINISTERS. HE THOUGHT CHANCELLOR PROBABLY
EXPECTED A LITTLE MORE FROM THE SUMMIT THAN HE
EARLIER BELIEVED, ALTHOUGH NOTHING EARTH-SHATTERING.
HE SAID CHANCELLOR SINCERELY WANTED CANADIANS PRESENT
EVEN THOUGH CANADIAN INTERESTS NOT REALLY CONGRUENT
WITH OTHERS (WHICH WAS REASON FRENCH OPPOSED) SINCE
CANADIAN PARTICIPATION WAS OF "MILITARY" IMPORTANCE.
THUS, CHANCELLOR HAD REJECTED POEHL'S SUGGESTION
THAT CANADIAN PRESENCE WAS NOT VITAL ON GROUNDS OF
SUBSTANCE.

7. POEHL WAS RATHER PESSIMISTIC ON BRITISH
SITUATION. HE WAS CONCERNED OVER WHAT COULD HAPPEN,
WHICH HE EMPHASIZED COULD WELL NOT HAPPEN. HE
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SAID HE HAD NOTED SIGNS THAT ARABS AND PRODUCERS
WERE SHYING AWAY FROM THE UK -- NOT SO MUCH LEAVING
AS SEEKING TO DIVERSIFY. HE ADMITTED THAT IT WAS
NOT EASY FOR ARABS SINCE THERE WAS NOWHERE TO GO
OTHER THAN LONDON AND NEW YORK. THE FRG AND SWISS
HAD PUT UP BARRIERS AND THE FRENCH DID NOT WANT
INFLOWS WHICH WOULD EXERCISE UPWARD PRESSURE ON THE
FRANC. ALSO ARABS DID NOT WANT TO TAKE ACTION WHICH
WOULD CAUSE DRASTIC DECLINE IN STERLING. THUS, IN
SPITE OF POEHL'S FEARS THE BRITISH MIGHT GET THROUGH
WITHOUT CREATING A MAJOR CRISIS.
HILLENBRAND

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 OCT 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BONN17027
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750361-0138
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751044/aaaabncl.tel
Line Count: 167
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 03 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 JUN 2003 by SmithRJ>; APPROVED <07 OCT 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: STATE SECRETARY POEHL ON CURRENT ECONOMIC ISSUES
TAGS: EFIN, ECON, GE, US, (POEHL)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006